Weyerhaeuser

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June 15, 2007

Winston Hickox, Chair
Cal EPA Market Advisory Committee
c/o California Environmental Protection Agency
1001 I Street
P.O. Box 2815
Sacramento, CA 95812

RE: Market Advisory Committee Recommendations

Dear Chair Hickox:

On behalf of Weyerhaeuser Company, I am pleased to submit the following comments to the Market Advisory Committee in regards to their report completed on June 1, 2007 titled, "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California."

GENERAL DESIGN RECOMMENDATIONS

Weyerhaeuser Company believes that conservation of resources, energy efficiency, and global climate change are important, interrelated international issues. The Company works to continuously improve its ability to use energy and natural resources wisely and has established a Company-wide target to reduce Greenhouse Gas (GHG) emissions from its operations by 40 percent by 2020, from what they were in 2000.

We believe that well developed public policies that are based on sound science, set forth clear objectives and standards of performance, and leverage free market economics can have a profound effect on achieving beneficial change with respect to energy security and climate change. We support a long term framework for addressing global climate change such as outlined in the World Business Council for Sustainable Development "Policy Directions for 2050."

SCOPE OF COVERAGE & POINT OF REGULATION

- Greenhouse Gas emissions laws, policies and programs should engage all sectors of the economy: energy, transportation, manufacturing, forestry, agriculture, housing and buildings, and government programs and individual activities.
- An upstream approach is often favored as it covers the majority of GHG emitters and is relatively simple to administer due to the low number of sources that need to be regulated upstream. However, an upstream approach closely resembles an energy tax as it reduces the amount of carbon-containing fuels available to the economy. Conversely, a downstream approach would be difficult to administer and quite costly due to the large amount of entities that would need to be regulated.

- As such, Weyerhaeuser would be in favor of some type of "hybrid approach." A "hybrid approach" offers up the best opportunity to cover all major contributors of GHG emissions and it avoids some of the burdensome administrative issues associated with a purely downstream approach. A hybrid approach effectively regulates the utility and commercial sectors, as well as the transportation sector effectively covering the largest emitters of GHG emissions.

ISSUES SPECIFIC TO THE ELECTRICITY SECTOR

- Renewable Portfolio Standards (RPS) programs should be structured to minimize the renewable energy cost impact to ratepayers stemming from the need to finance the renewable energy premium paid to providers and/or energy credit (Green Tag) sellers.
- RPS "targets" should be tied to load growth and planned resource retirements. Any new requirements should not force the shut-down of existing, viable resources, which could cause dramatic cost increases to occur and, potentially, eliminate resources needed to integrate intermittent wind and solar generation.
- All forms of renewable energy should be eligible, without "carve-outs" for specific technologies, to allow the market to determine the most cost-effective resources.
- Combined Heat and Power (CHP) should be included to the extent that it reduces fossil-fuel usage through its higher efficiency.
- Existing facilities should be included as they provide the same value as new resources. Their developers should not be penalized for taking the initiative to construct them prior to a mandate.

ALLOWANCE DISTRIBUTION

Weyerhaeuser believes that allowances should given away freely to capped entities, at least during the initial phases of the cap-and-trade regime. A mandatory cap-and-trade program will impose additional costs on both regulated and non-regulated entities. As such, free allocation of allowances will reduce the overall impact of such a program. The allocation of allowances should be equitable and an entity should not benefit from an over allocation of allowances (ie: windfall). Therefore, the initial amount of allowances provided for free should be based on historical emissions levels. Moreover, it is important for the amount of allowances to not only account for past emissions, but to take into consideration the current and future capital investments. If entities are forced to purchase allowances at the outset of any cap-and-trade program the monies that could be dedicated to innovative technologies would be diverted to cover this cost. Economic studies of the results of this approach should also be engaged to facilitate future policy adjustments. If the studies show that free allocations were being mis-used, changes could be made to phase in the auctioning of allowances to the private sector.

RECOGNITION FOR EARLY ACTION

Despite the lack of a mandatory program, entities should still be encouraged to take actions to reduce their GHG emissions. As such, entities or individuals that make such efforts should be awarded for their "early action." Government policies that fail to provide full credit for early actions punish those whose investments generated positive environmental results, and rewards those that wait or resist taking action until forced to do so. In effect, policies that preclude benefits accruing to early actors effectively reward recalcitrance, and are not in the public's, or the environment's best interests.

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OFFSETS

- Carbon offsets should be recognized in any market mechanism that is developed. Markets are an efficient, cost-effective way to encourage development.
- Avoid burdensome requirements such as "financial additionality." Businesses should not be penalized for making good business decisions. The focus should be on real, transparent, and verifiable emission reductions that have the impact of reducing atmospheric concentrations of greenhouse gases.
- Long-lived forest products, such as lumber, furniture and other wood-based products, should be recognized as a carbon offset for their ability to store carbon effectively in a forest product "sink" and incorporated in any GHG emissions reduction framework through accounting protocols and cap-&-trade and/or tax-based schemes.

COST-CONTAINMENT MECHANISMS

Weyerhaeuser recommends against the use of a "safety valve." The use of a "safety valve" risks distorting the market. A cap-and-trade program, without a safety valve in place, will have the ability to create a price signal which in turn will generate investment in research and development of new and emerging technologies that improve energy efficiency, reduce GHG emissions, enhance carbon dioxide sequestration, and produce biomass-derived fuels.

POTENTAL LINKAGES WITH OTHER CAP AND TRADE SYSTEMS

The Company believes that state and/or provincial climate change legislation should, at a minimum, be harmonious with national laws and policies.

Once again, we would like to thank the Market Advisory Committee for this opportunity to comment on the "Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California" report. We look forward to working with the State in future conversations to help craft a well thought out program which leverages free market economics in an effort to achieve beneficial change with respect to energy security and climate change.

Sincerely,

Anthony Chavez
Public Affairs Manager
Weyerhaeuser Company